UNITED
NATIONS

TD

United Nations Conference
on Trade and Development

Distr.
LIMITED

TD/B/SCP/L.3/Add.1
19 May 1994

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Special Committee on Preferences
Twenty-first session
Geneva, 16 May 1994
Item 8 of the agenda

DRAFT REPORT OF THE SPECIAL COMMITTEE ON PREFERENCES ON ITS TWENTY-FIRST SESSION

Held at the Palais des Nations, Geneva,
from 16 to 20 May 1994

Rapporteur: Mr. Z. Baltacioglu (Turkey)

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by Friday, 27 May 1994 at the latest to:

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Chapter I

REVIEW OF THE IMPLEMENTATION, MAINTENANCE, IMPROVEMENT AND UTILIZATION OF THE GENERALIZED SYSTEM OF PREFERENCES, INCLUDING PREPARATIONS FOR THE 1995 POLICY REVIEW ON THE GSP

(Agenda item 3)

CONSULTATIONS ON HARMONIZATION AND IMPROVEMENT OF THE RULES OF ORIGIN

(Agenda item 4)

TECHNICAL ASSISTANCE IN CONNECTION WITH THE GENERALIZED SYSTEM OF PREFERENCES

(Agenda item 5)

(continued)

45. The representative of **Malta** stated that despite the various problems and obstacles encountered by users of the GSP schemes, the GSP still remained a valid tool for encouraging and developing trade between donor and developing countries. Nevertheless, it was well-known that the utilization rate of the GSP schemes as a whole was far below its potential. Improvements were necessary, and the present session, in the run-up to the 1995 review, was the ideal forum for sincere discussions and effective conclusions. As regards the issue of harmonization of the rules of origin, adoption of a single criterion applicable under all GSP schemes would be a major step towards simplification. Just as a single rule had been agreed on in the Uruguay Round as regards non-preferential trade, her Government hoped that it would also be possible to reach an agreement on rules of origin for preferential trade. Whether the final decision was for the "maximum imported input allowance criterion" or for the "change in tariff heading rule", utilization of the GSP would be made a lot easier for exporters. Regarding duration of the schemes, exporters using the scheme laboured under a certain amount of apprehension awaiting confirmation of renewal or extension. The UNCTAD secretariat was to be congratulated for the completion of the second version of the computerized Trade Analysis and Information System (TRAINS) now available in CD-Rom form. It was a very "user-friendly" system and invaluable tool for all parties involved in providing any type of GSP-related information. It was more up to date than many of the individual donor-country GSP publications and tariff schedules, and included varied useful information. It would be desirable to have all GSP schemes included, and it was hoped that UNCTAD would find the means further to

develop this system and to update it regularly so that it would retain its effectiveness and fulfil its potential.

46. The representative of **Finland** observed that its GSP scheme was simple, transparent and predictable without any quotas or ceilings. Two years ago, Finland started giving duty-free entry to nearly all imports from the least developed countries and has made no substantial changes since then nor were there plans to make any reforms while awaiting the outcome of the integration process. However, some minor changes had been made concerning the list of GSP beneficiary countries. Yugoslavia had been deleted while Bosnia-Hertzegovina and the former Yugoslav Republic of Macedonia had been added to the list. Croatia and Slovenia were already on the list. Bulgaria, Israel and Romania had been deleted upon conclusion of their free trade agreement with EFTA countries. Eritrea had been added to the list of least developed countries. The preliminary statistics on 1993 GSP imports has shown a slightly declining trend on the utilization rate of the GSP. The usefulness of the so-called "green" GSP was questionable. As far as this proposal went there might be certain difficulties to formulate objective environmental criteria and control of production in this context. With respect to extending the GSP to services, the new GATT agreement already provided good opportunities to take into account the concerns and special situation of individual developing countries. Thus it would be better to concentrate on making the best use of existing possibilities when implementing the World Trade Organization agreement. Finland supported the efforts to simplify the GSP, especially the rules of origin.

47. The representative of the **United Republic of Tanzania** said that past reviews of the GSP had assessed its achievements as positive, although the GSP had not fully reached its objectives. The Chairman's summary of discussions at the twentieth session of the Special Committee referred to the revitalization of the schemes. Indeed this was an integral aim of the Cartagena Commitment which called for the GSP to be revitalized and fresh innovative approaches to be taken in its design, review and improvement, especially in the fields of beneficiary status, product coverage, quantitative restrictions, graduation, rules of origin and special provisions for least developed countries. There was concern regarding possible new opportunities arising from the conclusion of the Uruguay Round, in cases where reform of rules of origin risked trade diversion and safeguarding of domestic producers interests. UNCTAD could thus initiate an in-depth dialogue leading to a consensus on such rules of origin reform. The proposal to convene a working group for this purpose merited support as did the proposals for the improvement of the GSP made by the spokesman for the Group of 77 and the representative of Bangladesh who had stressed the necessity of special measures for least developing countries to increase their export earnings, promote industrialization and accelerate economic growth.

48. For the special measures to be taken to preserve the relative position of the least developed countries in the face of benefits eroded by tariff reductions (UNCTAD/ITD/8), his delegation endorsed the observations presented in the consultant's paper. The least developed countries should be enabled to benefit fully from GSP schemes by comprehensive product coverage and liberal application of rules of origin. In particular, OECD countries might wish to consider full duty-free access for all goods from these countries. Full global and regional cumulation should be granted to exports from the least developed countries and the donor country content rule should be introduced as this could expand exports and attract foreign direct investment and thus stimulate economic growth. For the least developed countries the advantages from the results of the Uruguay Round had been insignificant. Therefore care should be taken in the reform of the GSP to guard against the least developed countries being once again left out in the cold.

49. The representative of the **United States of America** said that, in an effort to broaden and deepen its GSP scheme, his Government had continued to add both countries and products to its GSP scheme in the past year. The countries added were Albania, Kazakhstan, Kyrgyzstan, Romania, Russian Federation, South Africa and Ukraine. In addition, reviews were being undertaken to determine whether Belarus and Uzbekistan qualified for benefits under the scheme. The list of articles eligible for GSP benefits was expanded as a result of the 1992 annual GSP review. Duty-free imports of GSP-eligible products had continued to increase. Currently, more than 4,400 categories of products in the United States tariff schedule were eligible for duty-free GSP treatment. This included approximately 500 agricultural products and over 3,000 manufactured and semi-manufactured items. In 1993, more than $US 19.5 billion worth of products had been imported free of duty under the GSP scheme from 146 beneficiary countries and territories. Moreover, petitions to add new products to the list of eligible articles were being considered in the 1993 annual GSP review.

50. With regard to the renewal of the GSP scheme, it had been temporarily renewed for 15 months in 1993, and was set to expire on 30 September 1994. Longer term renewal of the GSP scheme would require legislative action by the United States Congress. The administration had just submitted to Congress a proposal for its consideration. Notwithstanding the successful conclusion of the Uruguay Round of Multilateral Trade Negotiations, it should be stressed that the United States remained committed to the overall aims of the GSP programme, i.e. economic growth and development through expanded trade with developing countries. The scheme had effectively promoted trade with those nations which were less competitive in world markets, thus facilitating their economic development. There had been rapid growth in the levels of development of those beneficiaries which had been able to most utilize the various GSP schemes. However, the GSP was not intended to be a

permanent scheme, nor was it a substitute for the reduction of trade barriers through multilateral trade negotiations. Thus, the principle of graduation, which was as old as GSP itself, was a necessary corollary to the granting of unilateral trade preferences.

51. The proposal now before the Congress retained most of the features of the current programme, while seeking to simplify the scheme and to improve transparency. Criteria for both country and product graduation would be simplified. Country graduation limits based on per capita GNP had been lowered aligning them with the World Bank definition of upper middle-income countries, i.e. countries designated high-income countries by the World Bank would be graduated from the scheme after a two-year phase-out period. The competitive need limits had been lowered somewhat for product graduation, but discretion to continue to grant GSP benefits to products that exceeded the limits was retained as long as the GSP beneficiary met conditions relating to market access and intellectual property protection. Lastly, the United States intended to explore the possibility of extending increased benefits for least-developed beneficiary countries. In closing he said that his Government remained committed to the concept of GSP as a means of furthering economic development. He then reiterated that GSP was not intended to be a permanent solution, especially in light of the achievements of the Uruguay Round.

52. The representative of **Switzerland** noted that the rules of origin had become not only an administrative burden but an insurmountable obstacle to developing countries. Therefore, she supported the proposal to establish an ad hoc expert group charged with harmonizing, simplifying and liberalizing the rules of origin. As its terms of reference, this group should pursue the adoption of a single origin criterion more favourable for the least developed countries. In the second stage, rules of origin should be relaxed in order to respond to the industrial infrastructure of developing countries. As far as technical assistance was concerned, the situation was critical: UNCTAD staff assigned to this area had diminished from year to year and currently consisted of only two at the professional level. It was hard to understand how this had been allowed to happen since the GSP was one of the major successes of UNCTAD and preparations for the 1995 policy review had started. The few remaining staff would have to prepare for the review in addition to carrying out technical assistance activities. The necessary staff should be provided on a regular budget basis since it was not acceptable that staff financed through projects should undertake duties devolving on the Organization itself. In addition, the 13 per cent overhead on GSP technical assistance projects should be devoted to this programme. So far, the programme had generated hundreds of thousands if not millions of dollars which should be used to support the programme itself. Finally, she said that an evaluation of technical

cooperation should be made. Surely the current decline of resources could be offset by a new method of financing. New approaches to technical cooperation should be taken. Among other ideas, seminars should be made profitable, as had been done elsewhere with success. The training of trainers could also be another way to ensure regular training but these trainers would have to be financially motivated. The Government of Switzerland was ready to consider financing an evaluation of technical cooperation.

53. The representative of **Ethiopia** said that the achievements of the GSP were positive if not outstanding. While exports of preference-receiving countries had grown significantly in the past 15 years, there had been only a marginal increase in the share of total dutiable exports receiving GSP benefits. As a least developed country, Ethiopia was concerned about the effects of the Uruguay Round on preferential access. Although his country had enjoyed GSP benefits in the pre-Uruguay Round period, such benefits were being eroded by reducing tariff rates, wider product coverage and the absence of quantitative limitations on exports from countries which were not among the least developed countries.

54. There was also concern over the structural inability of the least developed countries to take full advantage of the GSP, owing to their low export supply capability and lack of awareness among potential GSP users. Exclusion of certain products from GSP, limited special provisions regarding rules of origin and the complexity of schemes added to the difficulties. In line with the Cartagena Commitment, there was a need to revitalize the GSP through innovative approaches.

55. Turning to technical assistance, he listed the problem areas for his country, including lack of information and absence of promoting the benefits to GSP users. It would be highly desirable if seminars and workshops could be organized for all actors in the field of international trade but this important task of technical assistance required help from the international community, in general, and from UNCTAD, in particular. This would greatly assist Ethiopia in its endeavour to implement structural adjustment consisting of economic liberalization measures, accompanied by market deregulation and privatization, with a view to enhancing production and stimulating exports.

56. The representative of the **Asian Group** (Sri Lanka), referring to the multilaterally agreed principles of the GSP, said that any action to link the granting of GSP benefits to non-economic factors such as environment and labour standards would adversely affect the stability and the utility of the schemes. Concerning the recent extension of the GSP benefits to the countries of Central and Eastern Europe, his Group had reservations regarding the extension of the benefits to countries not categorized as developing countries. This highlighted the need

for a study evaluating the implication of such a step for the developing countries. For example, the European Union had extended to the former countries more favourable conditions on market access than under the GSP. The Asian Group considered that the favourable treatment accorded under the Europe Agreements would allow these countries to establish lasting gains in the European market at the expense of producers in Asian developing countries. The extension of benefits under the GSP or other preferential schemes should not put the developing countries at a disadvantage. His Group also questioned the granting of special access to the European Union (EU) markets for certain products from some countries of Central America as this access was not given to Asian countries which had lower income levels. As a result, exporters in the Asian region had been affected adversely and investment in the sectors concerned had declined. In the circumstances, special access should be extended to all beneficiaries of the EU scheme without further delay.

57. Regarding the uncertainty surrounding the duration of most of the GSP schemes, this unfortunately limited chances of industrialization through increased local and foreign investment. His Group, therefore, proposed that all schemes be extended to cover long-term periods, preferably 10 years or longer. The predictability of schemes should also be further strengthened, along with multilaterally agreed criteria of graduation. Any arbitrary application of graduation should be disallowed until objective criteria had been agreed upon. The need to expand substantially product coverage to include the products of current or potential export interest to developing countries had been recognized in the Cartagena Commitment as a means of improving the system. Accordingly, his Group was calling upon all preference-giving countries to expand the product coverage to the greatest extent possible. Comprehensive coverage should include semi-processed and processed agricultural products, leather goods, footwear, textiles and clothing, steel products and certain categories of electronics.

58. As for possible erosion of preferential margins that would result from the reduction of MFN rates following the conclusion of the Uruguay Round, his Group appealed to all preference-giving countries to take appropriate steps to offset such erosions as early as possible in line with the Cartagena Commitment. Tariff reductions in most of the preference-giving countries necessitated a comprehensive review of the GSP rules of origin as the present low levels of duties no longer justified such stringent criteria as before. The Asian Group would like to see such a review form part of the 1995 policy review. Although recent proposals aimed at using the GSP for promoting environmentally friendly production in developing countries were interesting, the "greening of GSP" should not become an attempt to restrict market access by beneficiary countries under the prevailing schemes. With the growing importance of the services trade, the Asian Group considered the

proposal to develop preferences similar to GSP for services to be timely and appropriate. It also welcomed the proposal for parallel measures for foreign direct investment which would promote such investment in developing countries.

59. UNCTAD's Technical Cooperation Programme on GSP and Other Trade Laws had been constantly hampered by financial constraints but recent developments in the international trading system, such as conclusion of the Uruguay Round and the establishment of NAFTA, and their implications for the GSP schemes and other trade laws and regulations, made some countries in his Group's region more dependent than ever on this programme. However, the growing demand from other regions, including Central and Eastern Europe, limited access to the programme. His Group therefore appealed to the international community to increase their financial contributions to this programme.

60. The representative of **Sweden** said that his country's scheme, introduced in 1972, was simple, transparent and predictable. The beneficiaries enjoyed total exemption from import duties for goods eligible for GSP treatment. No tariff quotas or ceilings were being applied for eligible goods. Furthermore, the least developed countries as designated by the United Nations enjoyed duty-free treatment for all dutiable products. All they had to do to benefit from the scheme was to fulfil the notification procedure set by the Swedish Government, and to make sure that the rules of origin were being complied with. There were over 100 beneficiaries under the scheme, of which 25 were least developed countries.

61. The procedures were quite simple. There was no need to deposit specimens of signatures of individual officers empowered to sign a certificate of origin. The designation of the competent authority and a specimen impression of the stamps used by the authority were sufficient. With regard to the latest changes made to the scheme, as from 1 October 1993, the Republic of Benin was covered as a least developed country. Since 1 June 1994 the Republic of Albania benefited from the scheme. Sweden was now taking the necessary steps to grant beneficiary status to South Africa. Product coverage had also been extended. As from 1 April 1994, certain fabrics classified under HS headings 52.08 and 55.13 had been added to the list.

62. Regarding the GSP utilization rate, he said that imports from beneficiary countries entitled to GSP treatment had increased in 1993, especially of industrial goods. The percentage of imports that actually took advantage of the preferences remained unchanged, the average figure being 64 per cent, which was relatively quite high in international comparisons. Finally, he informed the Committee about his country's aim to become a member of the European Union as from 1 January 1995.

This meant that the scheme would cease to be effective as from the date of the full membership and that the Community's scheme would apply thereafter.